



Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 4c

February 14, 2012

ITEM NAME: 2011 Cost-of-Living Report

PROGRAM: Actuarial Office

ITEM TYPE: Action Consent

RECOMMENDATION

Staff recommends that the Pension and Health Benefits Committee approve this Report, and move for adoption by the Board with instructions to file the Report with the Governor and the Legislature.

EXECUTIVE SUMMARY

A Cost-of-Living Report is required by Section 20233 of the Government Code. The 2011 annual inflation rate used in this report is 3.2 percent. This measure will be used in calculating the 2012 regular cost-of-living adjustments for CalPERS retirees.

BACKGROUND

This report is presented in response to Section 20233 of the Public Employees' Retirement Law (PERL) entitled: "Annual Report – Supplementary Increases", which requires the Board to publish and file a Cost-of-Living report each year.

This report analyzes the effect inflation has on the preservation of purchasing power of benefits.

ANALYSIS

Attached is the 2011 Cost-of-Living Report. The 2011 annual inflation rate used in this report is 3.2 percent. This measure will be used in calculating the regular cost-of-living adjustments for CalPERS retirees.

The Retirement Law provides for the payment of an annual cost-of-living adjustment (COLA) to be paid each May. However, the COLA adjustment is limited to the lesser of two compounded numbers – the rate of inflation or the COLA contracted by the employer. In 2009 and 2010, the inflation was less than 2 percent and as a result many of the retirees subject to the 2 percent COLA provision received increases of less than 2 percent. In 2012, these retirees will be receiving an increase above 2 percent in accordance with the law. For the 2012 COLA adjustments, the impact of inflation will result in the following increases:

COLA Increases in May 2012 for Retirees by Year of Retirement

| COLA Provision | Year of Retirement | % COLA Increase Effective May 1, 2012 |
|-----------------------|---------------------------|--|
| 2% COLA | 2005 & Earlier | 2.0% |
| | 2006 | 2.1% |
| | 2007 | 2.9% |
| | 2008 | 3.2% |
| | 2009 | 2.4% |
| | 2010 | 2.0% |
| | 2011 | Not Eligible |
| 3% COLA | 1981 & Earlier | 3.0% |
| | 1982 to 2009 | 3.2% |
| | 2010 | 3.0% |
| | 2011 | Not Eligible |
| 4% COLA | 1976 & Earlier | 4.0% |
| | 1977 to 2010 | 3.2% |
| | 2011 | Not Eligible |
| 5% COLA | 2010 & Earlier | 3.2% |
| | 2011 | Not Eligible |

Retirees currently subject to a 3, 4 or 5 percent COLA represent less than 5 percent of all CalPERS retirees.

We believe that the Report and the accompanying transmittal letter are self-explanatory.

BENEFITS/RISKS

If this report is not approved and forwarded to the Governor and the Legislature, CalPERS will not be complying with the law and the Governor, the Legislature and others may not be able to assess the impact that inflation has on retirement plans in the State of California.

ATTACHMENTS

The 2011 COLA report is attached.

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